*Jahrbuch für Gesetzgebung** has laid it down that the insurance legislation on its present lines is not inconsistent with the principle of self-help or with the maintenance of sound character, for the very reason that it gives no guarantee of work, or of aid in case there is no work. Whether or not this be true of the legislation so far as it has yet gone, it certainly points out the limits beyond which this or any benevolent legislation cannot go with safety.

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## WAGES AND PROFITS.

Readers of this review will perhaps expect me to say something in answer to Mr. Macvane's criticisms, in the last number, on the doctrine of Distribution contained in the *Economics of Industry*. I have come across most of his objections before, but never, I think, so ably and coherently stated; and I therefore desire to treat them with all respect. They cover, however, so wide a ground that a full answer here is out of the question. I propose, therefore, to select what seem to me his two most striking points, and submit my own views with regard to them briefly, and without staying to indicate the respects in which they seem to me to differ from those of General Walker.

I regard the wages fund doctrine not as false, but as pretentious and misleading. As explained by careless writers, it is, I think, false. As explained by Cairnes and others, it is so far explained away that there is very little left in it to justify its title, and nothing at all which cannot be expressed better in other ways. Its form is objectionable, because, while not calling attention to the real differences which there are between markets for labor and markets for goods, it implies differences which do not exist; and, after all, it is but a fragment, isolated, discontinuous with the rest of economics, and a hindrance to a scientific conception of the whole subject.

The theory of Normal Wages given in the *Economics of Industry* is not in contradiction to the wages-fund doctrine as explained by Cairnes, but claims to expand and develop that doctrine, and to fit it into its proper place in the whole

* Dr. H. Thiel, in *Jahrg.* 11, Heft 2, pp. 69-73.

body of economic theory. But Cairnes himself could not get free from the misleading associations of that unfortunate phrase. In one case only does he attempt to apply his doctrine so carefully explained to a practical problem. That one case relates not to Normal Wages, but to Market Wages; and on that we join issue.

He argues (*Leading Principles*, pp. 203, 204) that if there is an increase of labor not accompanied by an increase of capital, and if the labor is of such a kind as to be employed in conjunction with fixed capital and raw material, some of the capital in the island will be diverted to this purpose, that therefore the wages fund will "contract as the supply of labor expands." In opposition to this, it is argued in the *Economics of Industry* (p. 205) that the new labor will instantly "increase the net produce of capital and labor, and therefore the Wages-and-profits Fund. It is true that employers will compete less keenly than before for the hire of labor, partly because there is more labor to be hired, and partly because it will answer their purpose to divert some of their means from hiring laborers to providing more auxiliary capital; and therefore the rate of wages will fall. But it is not certain, nor even very probable, that the whole share which labor gets of the Wages-and-profits Fund will amount to less than before." Mr. Macvane, as I understand, takes this as the crucial point of difference between us. He says (p. 27, note): "There can be no question that this result will follow in the course of time. But will it — as a matter of physical possibility, *can* it — happen at once? Must not the increase begin at the beginning of production?"

I answer: It can happen at once. The moment the laborer is set to work, more partly finished processes of production are finished than would otherwise have been the case, more processes just begun are carried a little further, more new processes are begun. Though the spinner cannot get as his wages to-day the carpet that will be made of the yarn which he spins to-day, there are pretty sure to be enough carpets in store to meet the increased demand due to the increased aggregate of wages, which in my belief there would be; and manufacturers and dealers, knowing that larger supplies than

before are being made, will not hesitate to sell freely from their stocks. Of course, it is true that a sudden and unexpected increase of labor in a place which had no means of importing corn might cause a temporary scarcity of food. But Cairnes, of course, does not assume the increase to take this catastrophic form; and, indeed if he did, what he says about fixed capital would be irrelevant, for in this extreme case there would be a temporary scarcity of food, whether much fixed capital were used or not. His argument shows that he regards the increase of labor as gradual, so that there is time for producers to divert their energies from the production of wage-capital to that of auxiliary capital.

I admit, however, that "the Wages-and-profits *Fund*" is not a good term. I adopted it as a catch-word, to indicate my opinion that wages and profits have their *normal* values determined by causes of the same general character. For that purpose, I retained the latter half of the old term wages-fund. But really what is meant is not a fund of stored up wealth sufficient to afford wages and profits for a fixed period, say a year: it is rather a flow of income to be distributed.

To avoid misapprehension, I should perhaps say that I do not speak of wages as "paid out of the products of industry," in a sense in which this may be understood to mean that labor is not supported by capital. On this point I seem to be in entire agreement with Mr. Macvane. The bargain between labor and capital is doubtless that the wage-receiver gets command over commodities in a form ready for immediate consumption, and in exchange carries his employer's goods a stage further towards being ready for immediate consumption. But, while this is true of most employees, those who finish the processes — *e.g.*, those who put together and finish watches — give to their employers far more commodities in a form ready for immediate consumption than they take from them; and thus the balance is redressed. Taking one season of the year with another, so as to allow for seed and harvest time, workmen as a whole hand over to their employers more finished commodities than they receive as wages. But — to say nothing of machinery and factories, of ships and railroads — the houses loaned to workmen, and even the raw materials in various

stages which will be worked up into commodities consumed by them, represent a far greater advance of capital to them than the equivalent of the advances which they make to the capitalist, even when they work for a month for him before getting any wages.

The other remark of Mr. Macvane to which I desire to reply is one the force of which I think I must have failed to catch; for, if I have understood him rightly, our difference is here a very real one. He says (p. 9): "If a good manager can create as much wealth as one hundred men when good managers are few, he can do the same when good managers are numerous. If his earnings are to be the addition his work makes to the produce of capital and labor, how can mere increase of the number of men capable of thus adding to the produce of capital and labor diminish his earnings? Mr. Marshall, in accounting for the decline, cites as analogous the decline in the wages of skilled labor as the number possessing the skill increases. But there is this fundamental difference between the two cases, which renders analogy between them impossible for the purpose in hand. Skilled labor has specific products of its own, which fall in value as the supply of them is increased. But management has no distinct products of its own. All production needs management, and all products cannot fall in value." Can Mr. Macvane mean that every increase in the output of a business must cause a proportionate increase in its exchange value? His words seem to imply this, but I prefer to suppose that I have misunderstood him. So I will merely restate my own position.

It is well known that great economies have been introduced into many branches of iron manufacture by diminishing the number of times which the metal is heated in passing from pig iron to its final form. Suppose an iron manufacturer with a capital of £50,000 to be getting in normal times a net profit of £4,000 a year, £1,500 of which we may regard as his earnings of management. We assume that so far he has been working in the same way as his neighbors, and showing an amount of ability which, though great, is no more than the normal or average ability of the people who fill such excep-

tionally difficult posts. That is, we assume that £1,500 a year is the normal earnings for the kind of work he has been doing. But, as time goes on, he thinks out a way of dispensing with one of the heatings that have hitherto been customary; and in consequence, without increasing his expenses, he is able to increase his annual output by things which can be sold for £2,000 net. And, so long as he can sell his wares at the old price, his earnings of management will be £2,000 a year above the average. His neighbors, however, will copy his plan; and perhaps, for a while, they will all make more than average profits. But before long competition will increase the supply and lower the price of their wares, until the profits of the business are such as to give only normal earnings of management as before; for no one could get extra high wages for making eggs stand on their ends after Columbus's plan had become public property. As soon as any plan of manufacturing is so far reduced to routine that it no longer requires exceptional ability, those who follow the method add much less to the efficiency of production than they would have done if they had had to think out the method themselves. The production is as great as it would have been; but more of it is due to knowledge which is the common property of the world, and less of it is due to the comparatively commonplace men who are able to follow in the now well-beaten track. Putting aside the gains of speculation, which require to some extent a separate treatment, it remains true that competition tends to secure to each ordinary employer earnings of management equal to what his work adds to the efficiency of production, so much and no more. Inventors and pioneers are seldom able to retain for many years, even if they ever get it, the full value of the addition they make to the efficiency of production. It must, however, be admitted that occasionally a man will complete improvements which others have nearly worked out, and by patenting the last little link which he has added, get more than his deserts.

As to the question what part of his profits should be called rent, I wish to say that I do not attach great importance to this method of speaking in spite of the great support which it has from the traditions of Senior and of many foreign econ-

omists from the time of Storch and Mangoldt (see, for instance, Mataja's *Unternehmergewinn* chap. i., § c.). I regard it only as an analogy, and, moreover, as one which, if pressed too far, is likely to be misleading. In particular, it is difficult to know how much the success of any business man is to be ascribed to his good fortune in getting on work suited to him, and ought therefore to be balanced against the failures of others, who turn out to have selected a wrong occupation for their faculties. When a fisherman makes a good haul, we do not count it as rent: we set it off against the bad haul, and expect him to get in the long run earnings for his labor and interest on his capital, but nothing more; but this brings us to the fringe of a difficult set of problems, which could not be adequately discussed here.

ALFRED MARSHALL.

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## OCCUPATIONS OF IMMIGRANTS.

Immigration has lately become a staple topic of discussion. The possible necessity of its restriction has been mentioned in public addresses by Senator Cullom and Mr. Chauncey M. Depew. Not long ago, a number of *Public Opinion* contained nearly four pages of extracts from articles on this subject, published in thirty-eight newspapers. The Ohio Republican platform even contains a suggestion of restriction. "We view with alarm," says the platform, in the tritest of all trite political phraseology, "unrestricted emigration from foreign lands." Congress is urged "to pass such laws and establish such regulations as shall protect us from the inroad of the anarchist, the communist, the polygamist, fugitives from justice, the insane, the dependent pauper, the vicious and criminal classes, contract labor in every form, under any name or guise."

The State Department has published a bulky volume of consular reports on immigration, embodying an abridgment of statistics of the occupations of immigrants, taken from the annual reports of the Bureau of Statistics. This bears on the most interesting branch of the general subject. Little information about immigration beyond the number of arrivals reaches the public. Occasionally, attention is called to the